



# Commercial TRENDS Boston



1<sup>ST</sup> HALF - 2001 ISSUE 4

DEPARTMENT OF NEIGHBORHOOD DEVELOPMENT • POLICY DEVELOPMENT & RESEARCH DIVISION • CITY OF BOSTON • THOMAS M. MENINO, MAYOR

## Economic Uncertainty Slows Lease Increases

Uncertainty about the severity of our economic dip is prompting a leveling off of commercial lease rates in some sections. Central Business District Class A office space rents are an indicator for the rest of the city. Spaulding and Slye Colliers is reporting that rents have declined by 10% to 15% at mid-year to \$57.00 psf on average for all classes of office space. The downtown vacancy rate that at one time last year slipped below 3% now exceeds 7%. Nevertheless, an office vacancy rate below 10% is considered healthy. Economic worries also have slowed the increase of downtown retail leasing rates.

### Office Lease Rates (Gross Rates)

Neighborhood	Class	Ave. Range	
		1 <sup>st</sup> Half 2001	1 <sup>st</sup> Half 2000
Allston	B	\$16 to \$21	\$22 to \$30
Comm & Brighton Aves	B	\$13 to \$18	\$16 to \$21
Brighton	B/C	\$12 to \$29	\$16 to \$21
Back Bay/Beacon Hill	A	\$50 to \$75	\$45 to \$54
	B	\$35 to \$50	\$27 to \$39
	C	\$25 to \$32	\$12 to \$27
Central			
Financial District	A	\$55 to \$90	\$57.5
Financial District	B	\$31 to \$50	\$35 to \$55
North Station	B	\$35 to \$48	\$25 to \$34
Central	C	\$16 to \$25	\$8 to \$25
Charlestown	C	\$15 to \$45	No update
Medford Street	B	\$39	
Constitution Plaza	B	Full - no update	\$30 to \$36
Dorchester			
Morrissey Boulevard	B	\$30 to \$40	
North Dorchester	B & C	\$19 to \$26	\$21 to \$35.5
South Dorchester	B & C	\$15 to \$18	\$15 to \$18
East Boston	B & C	\$18 to \$22.5	No update
Fenway/Kenmore	B	\$28 to \$50	\$50
Fenway/Kenmore	C	\$20 to \$28	\$25 to \$28
Hyde Park	B/C	\$12 to \$18	\$10 to \$15
Readville	B/C	\$14	
Jamaica Plain	B/C	\$15 to \$25	\$15 to \$25
Mattapan	B/C	\$15	\$12 to \$15
Roslindale	B/C	\$10 to \$15	No update
Roxbury	B/C	\$16 to \$25	\$12 to \$22
Dudley Square	B	\$22 to \$29	\$16 to \$25
Blue Hill Avenue	B	\$16 to \$18	\$16
South Boston	B/C	\$10 to \$35	\$10 to \$40
Fort Point Channel	A	\$43 to \$65	\$35 to \$40
Fort Point Channel	B	\$26 to \$42	No update
South Station	A/B	\$28 to \$67	No update
South End	B	\$30 to \$36	\$30 to \$36
	C	\$18 to \$27	
West Roxbury	B/C		\$12 to \$22
Central Business Dist.	B	\$19 to \$21	\$18 to \$22
Washington Street	C	\$14 to \$17	
VFW Parkway	C	\$20 to \$22	

Source: Real estate agencies and management companies.

It remains to be seen whether neighborhood commercial lease values will follow the lead of the Central Business District. Real estate professionals from around the City indicate that demand for neighborhood retail and office space continues to outpace supply, holding rent prices steady and often fueling price increases. This issue's Office and Retail Lease rate survey is supported by the responses of 36 City real estate and/or management companies. Names of survey respondents are listed later in this issue.

### Retail Lease Rates

Neighborhood	(Triple Net)	
	Ave. Range 1 <sup>st</sup> Half 2001	1 <sup>st</sup> Half 2000
Allston/Brighton		\$17 to \$23
Allston	\$14 to \$32	
Brighton Ave	\$16 to \$19	
Commonwealth Ave.	\$25 to \$30	
Harvard Street	\$14 to \$25	
Brighton		\$18 to \$32
Cleveland Circle	\$20 to \$37	
Back Bay/Beacon Hill	\$25 to \$100	\$22 to \$100
Newbury Street	\$60 to \$120	
Central	\$25 to \$125	\$22 to \$25
City Hall area	\$60 to \$125	
Charlestown	\$25	\$15 to \$20*
Dorchester	\$10 to \$20	\$12 to \$25
Codman Square	\$10 to \$12	
East Boston	\$14 to \$21	\$10 to \$15*
Fenway/Kenmore		\$20 to \$100
Hyde Park	\$12 to \$20	\$9 to \$12*
Clery Square	\$16 to \$20	
Jamaica Plain	\$20 to \$30	\$18 to \$21*
Centre Street	\$20 to \$27	
Washington Street	\$12 to \$20	
Mattapan	\$12 to \$20	\$10 to \$20
Mattapan Square	\$16 to \$23	
Roslindale	\$10 to \$18	\$10 to \$13
Roslindale Square	\$14 to \$18	
Roxbury		\$14 to \$20
Dudley Square	\$24 to \$29	\$20
Blue Hill Ave.	\$16	\$14
South Boston	\$29	\$13 to \$18
South End	\$35	\$16 to \$20
West Roxbury		\$11 to \$22
Centre St. - CBD	\$17 to \$25	\$15 to \$22
Spring St./Star Mkt Area	\$20 to \$27	
VFW Parkway	\$22 to \$26	
Washington St.		\$14 to \$17

\*1999 First Half data

Source: Boston Real Estate Agencies & Management Companies

### Send Us Your Data

The R&D Unit is interested in your rental data. Help us stay current. Our goal is to include all Boston Main Streets and commercial districts. We'd like to narrow the ranges presented here so businesses have the most accurate rent information. Call Keith Kuzmin at 635-0340 or send a fax: 635-0262 or email: [kkuzmin.dnd@ci.boston.ma.us](mailto:kkuzmin.dnd@ci.boston.ma.us)



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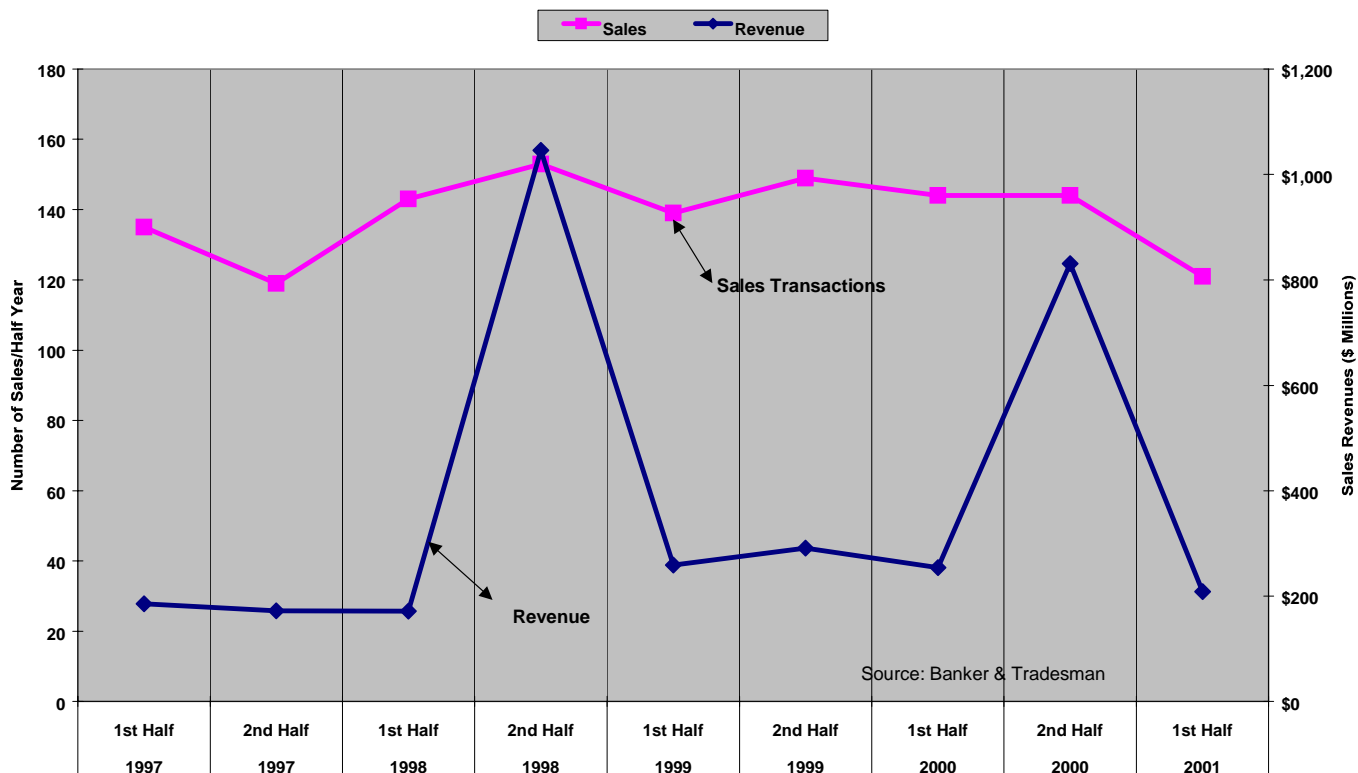
## Commercial Building Sales Dip

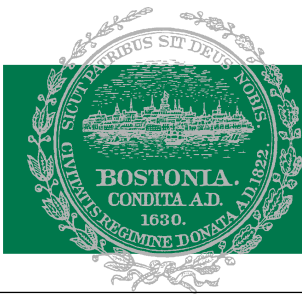
Sales of Boston commercial buildings dipped during the first half of 2001. The 16% decline from the last half of year 2000 (144 to 121 transactions) is within the lowered expectations of real estate professionals and is significantly better than the declining performance of the Boston Metro Region. 73% of commercial sales took place in Boston's neighborhoods, leaving the balance of sales in the major business districts (e.g., Back Bay/Beacon Hill, Central Boston, Fenway/Kenmore). In the neighborhoods, 88 commercial buildings were sold in the first half of the year, compared to 109 sales in the previous half year (2<sup>nd</sup> half of 2000). Commercial sales data for each neighborhood are provided on the last page.

## Building Sales Value Flat

With none of the mega-deals that boosted the sales value of the last half of year 2000, sales value was relatively flat at \$200 million. Because many of these deals, closed during the first half of 2001, were still under negotiation as the economy weakened, sales for the second half of this year will provide a better measure of business confidence.

## Commercial Building Sales and Revenues





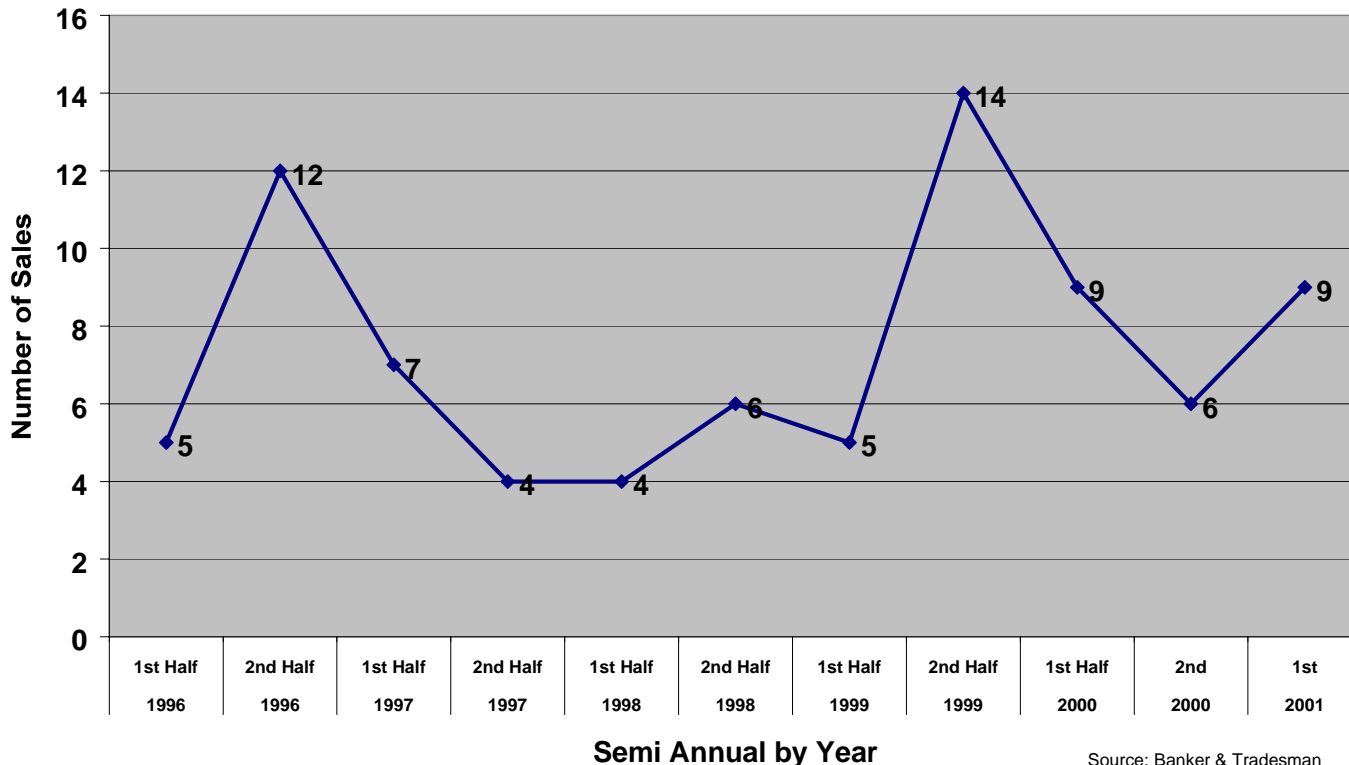
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## Commercial Vacant Land Sales (Jan 1996 to Jun 2001)



### Vacant Land Sales

The chart above depicts all commercial vacant land sales by the half year. The volume of sales is generally low because Boston has very little underdeveloped commercially zoned property. Many of the parcels that remain vacant are “brownfields” suffering from some form of environmental contamination. Developers should be aware, however, that Federal tax incentives are available for those looking to remediate these properties.

While many vacant commercial parcels are privately owned, some are owned by the City of Boston. The Department of Neighborhood Development’s Real Estate Management Division (REMS) is the City’s agent for selling City-owned property and has continued to streamline the process, creating The Clearinghouse, an inventory of City-owned land and buildings.

For a list of available City property, interested parties can call the Clearinghouse line at (617) 635-4191 or access the inventory on-line. To do this, go to: [www.ci.boston.ma.us/dnd/M\\_Clearinghouse.asp](http://www.ci.boston.ma.us/dnd/M_Clearinghouse.asp). Click on Real Estate Services, then Available Property Inventory.



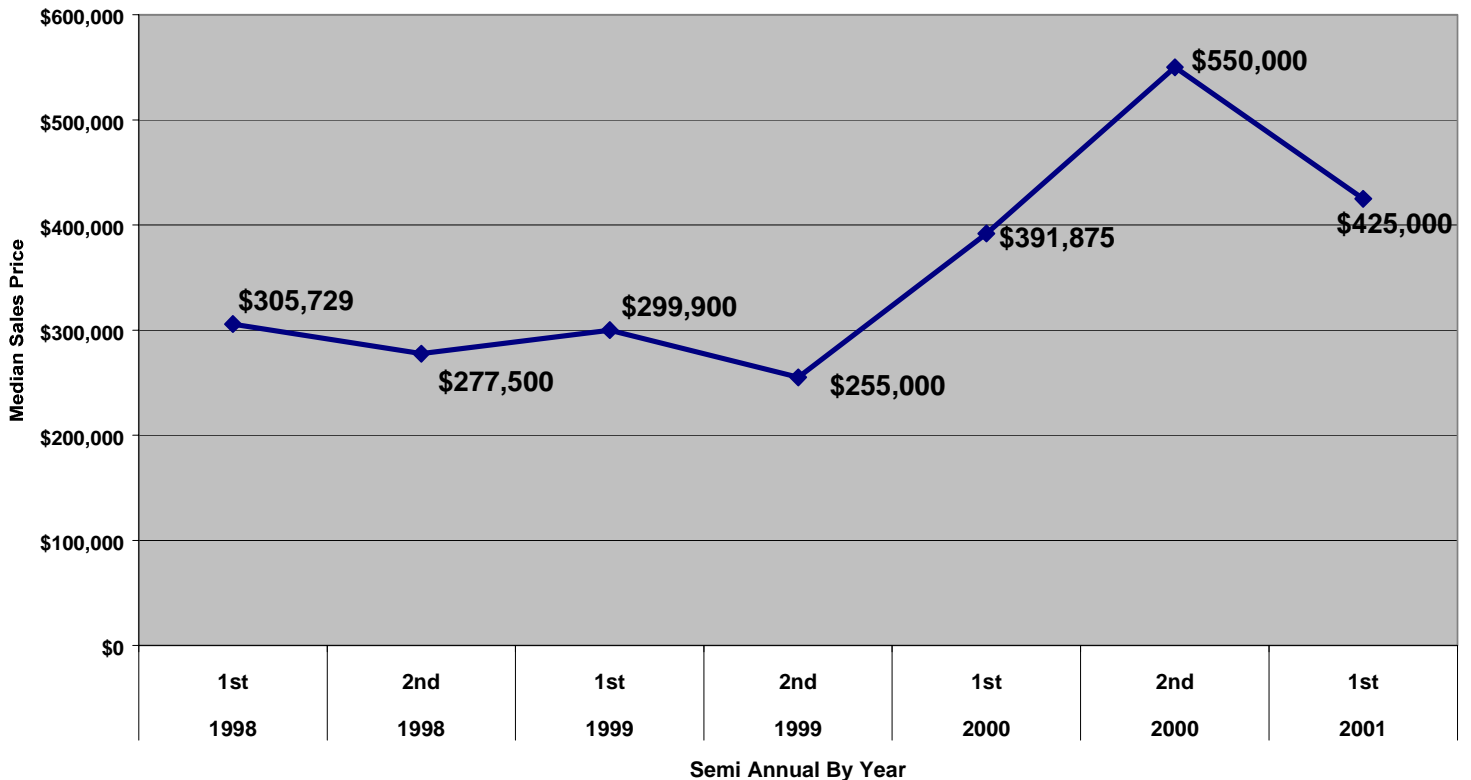
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## Median Sales Price



Source: Banker & Tradesman

### Median Prices Remain High

Median sales prices remain higher than those recorded over most of the past few years. This is partially due to dwindling sales of lower priced properties that tend to pull down the median price as neighborhood sales and speculative buying decline.



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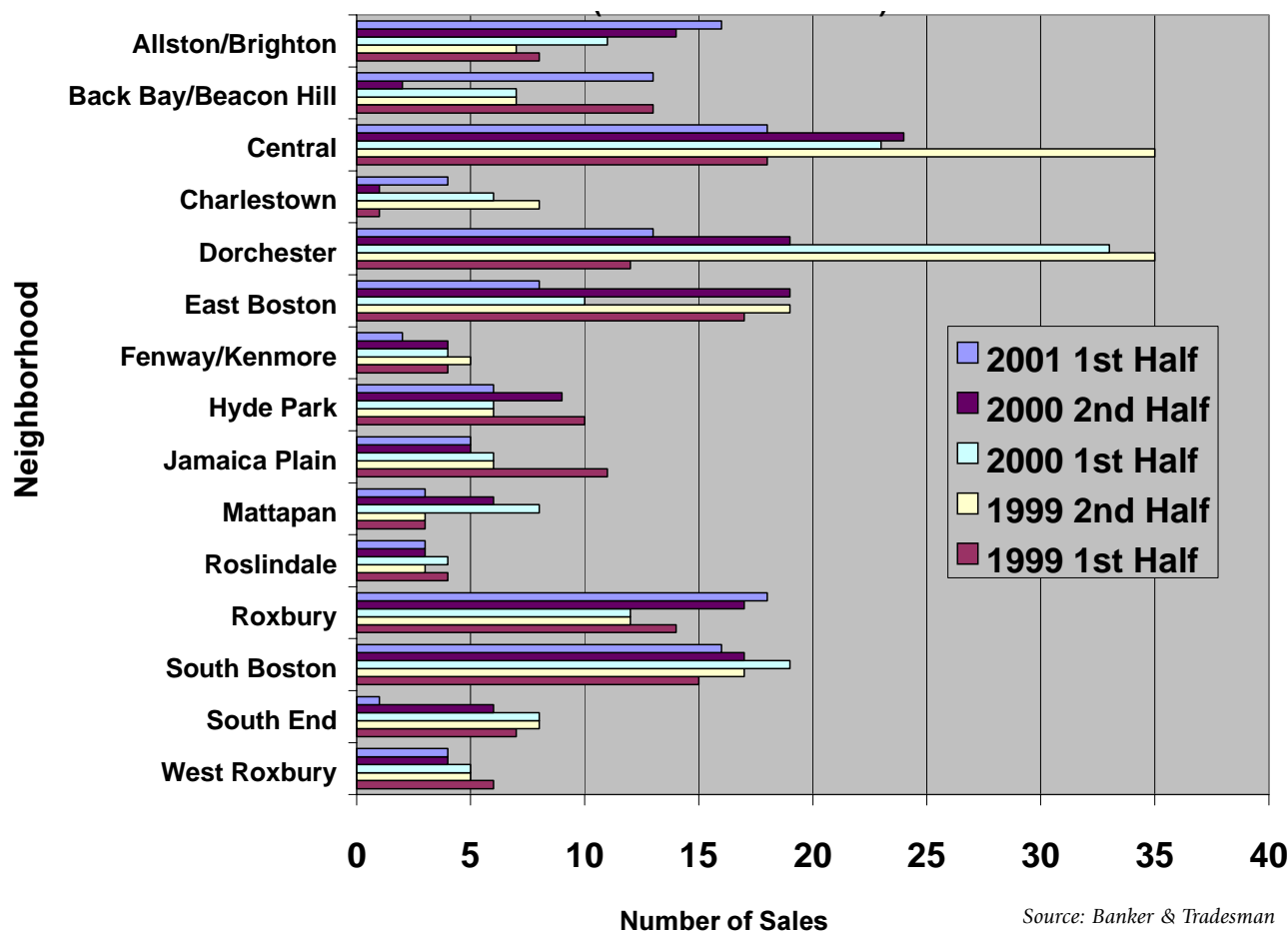
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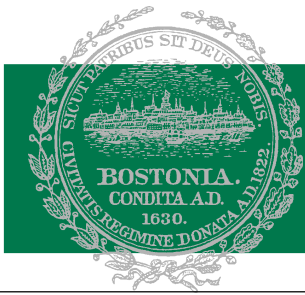
## City Wide Land and Building Sales

The chart below reports on the combined commercial building and land sales over the past two and a half years. Planning districts where the last half year's transactions exceed the previous half year include Allston-Brighton, Back Bay/Beacon Hill, Charlestown, and Roxbury. Neighborhoods seeing comparable sales activity from the second half of 2000 to the first half of 2001 are Jamaica Plain, Roslindale, and West Roxbury.

## Commercial Building & Land Sales (Jan 1999 to Jun 2001)



Source: Banker & Tradesman



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## Economy Will Test Boston's Fundamental Strengths

Few believed year 2000's exceptional 5.6% national GDP was repeatable. However, the speed of decline has taken many economists by surprise. First quarter 2001 GDP was 1.3% while the second quarter fell to 0.1%. It is now apparent that the national economic malaise has arrived on Boston's doorstep and will test the often touted strengths of the regional economy.

**Kodrzycki Reports Views of Boston Federal Reserve Bank**  
Speaking at the June 21<sup>st</sup> National Association of Industrial and Office Properties (NAIOP) annual mid-year roundup seminar, Yolanda K. Kodrzycki, Assistant Vice President and Economist at the Federal Reserve Bank of Boston, noted that the national economic slowdown began earlier than in Massachusetts. A significant demand reduction in the auto industry appears to have triggered the slowdown.

Turning to the regional economy, Kodrzycki acknowledged that high-tech industries in communications and software that do fuel our prosperity have suffered significant demand reductions since the start of the year. The number of individuals filing for unemployment insurance in Massachusetts is up 60% compared to this period last year. At the same time, she noted that many companies that have struggled to hire and keep valuable employees are reluctant to implement layoffs. The lingering question is, how long will local companies tolerate deteriorating profits before shedding employees?

In addition to the precarious employment picture, office vacancy rates are climbing faster than the national average, orders for capital goods is at its lowest point in over a decade, and demand from national accounts are frozen. The personnel and placement industry, a key local bellweather, is reporting a decline in demand of 20% or more.

### Reason for Optimism

Yet, despite the danger signs, Kodrzycki predicted that the positives will outweigh the negatives. She notes that the federal monetary policy will help. Historically, interest rate reductions take six to twelve months before increasing economic growth. Thus, the Fed's rate cuts are ready to kick in. She believes that the year-end 2001 GDP will be 1.5 to 2.0 percentage points higher than it would have been without the rate cuts. Furthermore, historic evidence supports the notion that half of the tax rebate will be injected back into the economy.

Regional strengths also are noted. In contrast to the last recession, exacerbated by numerous companies serving the declining mini-computer market, local high-tech companies supply leading edge technologies that are in demand when customers have cash to spend. Additionally, moderate real estate development, characterized by greater fiscal scrutiny, places far fewer businesses and individuals in jeopardy than in the inflated 1980s. Businesses continue to see Massachusetts as a good place to do business because of nationally competitive tax policy, regulatory environment, and energy supply. Perhaps the biggest, albeit most vulnerable plus has been a resilient consumer confidence. Consumer spending accounts for two-thirds of the GDP and thus is vital to the economy.

### Recovery At Least Two Quarters Away

The bottom line, says Kodrzycki, is that we have to hang in there for a minimum of two more quarters before we see positive improvement. While we should be optimistic in the long term about regional high tech companies, their short term performance is dependent on the national economy and will pace the severity of the regional downturn. Also, consumer confidence will profoundly affect our regional health and no one is able to predict whether it will increase due to tax cuts or be shaken by unemployment fears.





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**Commercial Trends Boston thanks the following real estate companies for responding to our annual survey.**

## Regionally, Office Space Demand Wanes

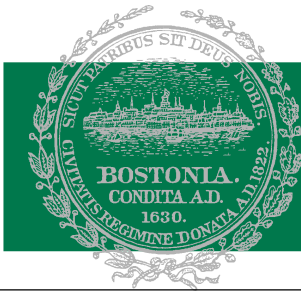
A panel of local economic and real estate professionals shared their views during the remainder of the seminar, indicating that the souring economy is closing in on Boston.

Lisa Campoli, Senior Managing Director at Insignia/ESG, Inc., noted that aggregate downtown Boston office investment has fallen from \$2.0 billion in 1999 to \$1.5 billion last year. Though she forecasts office investment will continue to fall this year, to \$1.2 billion, Campoli notes that this is still pretty healthy considering the overall economic condition. Ron Perry, Senior VP at Meredith & Grew, Inc., noted that the release into the market of sublease space has pushed absorption into negative territory. With 9 million square feet of new office space in the pipeline, Perry forecasts that the downtown vacancy rate could hover around 8% for the next five years. Overall, he predicts that rents will decrease throughout the year, stabilizing in year 2002. The August 30 *Business Today.com* quotes Tamie Thompson at Spaulding & Slye Colliers International, noting in Boston that, "demand is one fifth of what it was last year at its peak".

Christopher Tosti, an executive VP at CB Richard Ellis Whittier Partners, sees the drop-off in IT business as the key influence in the suburban office market. In the first quarter of year 2000, IT spending rose 30%; a year later it is off by minus 5%. Sublease space is a major concern, with new availability coming often unexpectedly from sublease deals.

Debra Gould, a principal at Spaulding and Slye Colliers, acknowledged that the Cambridge office market's 40% rent increases of last year could not be sustained. Neither could the near zero vacancy rate. Sublease returns comprise 40% of the 2 million square feet currently available in Cambridge. Properties commanding record breaking prices of \$70 per square foot in 2000 are now seeing rent decreases up to \$20.

Business Responding	Area of Focus	Phone
Hamilton Co	Allston, Brighton	(617) 783-0039
Boston Realty Assoc Inc	Allston, Brighton	(617) 277-5100
Harwood Properties, Llc	Downtown Boston	(617) 720-2007
Trammel Crow	Downtown Boston	(617) 757-2500
Shawmut Properties	Brighton	(617) 787-2121
Russel E. Hill Real Estate	Roxbury, Dorch, South End	(617) 864-6800
Mystic Management	Charlestown	(617) 242-1355
Bunker Hill Real Estate	Charlestown	(617) 242-2600
Grancey & Co Real Estate	Charlestown	(617) 242-4222
Gibson Charlestown Real Estate	Charlestown	(617) 242-3073
Kate Coffey Real Estate	Charlestown	(617) 242-5413
Otis & Ahearn Real Estate Inc	Charlestown	(617) 242-7393
New England Phoenix Co	Dorchester	(617) 288-0612
Crystal Realty Assoc	Dorchester	(617) 822-1115
Paul Stanton Real Estate	Dorchester	(617) 265-2650
Ashmont Realty	Dorchester	(617) 288-5088
Superior Realty Co	Dorchester	(617) 825-8481
Dardano & Assoc Real Estate	Dorchester	(617) 825-0800
Barbara Realty	East Boston	(617) 567-5300
Hacienda Realty	East Boston	(617) 568-9590
Independent Realty Management	East Boston	(617) 561-3131
T J Geraghty & Assoc	Hyde Park	(617)364-4000
Stanton & Tierney Real Estate	Hyde Park	(617)361-6400
Jonathan Crutchley Real Estate	Jamaica Plain	(617)265-2700
Coldwell-Banker Hunneman	Jamaica Plain	(617)522-4600
Jeff Levine	Mattapan, Roslindale	(617) 966-5625
Pena Realty Corp	Roslindale	(617)469-3308
Edward A Fish Assoc Inc	Roxbury	(617)442-0211
Choice Properties Inc	Roxbury	(617)541-4654
Jamaica Plain Real Estate	Jamaica Plain, Roxbury	(617)524-5464
Nuestra Properties	Roxbury	617-989-1209
De Kay Realty	South Boston	(617)268-8553
Front Page Realty	South Boston	(617)268-4700
Coyne Real Estate Inc	South Boston	(617)268-5101
Allied Real Estate	West Roxbury, JP, Roslindale	(617) 323-9988
R Boly Assoc	West Roxbury	(617)327-8356



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## Neighborhood Sales Trends

Our "Neighborhood Roundup" provides commercial building sales results for the neighborhoods outside of the major business districts. The number of buildings sold decreases for 6 out of 11 neighborhoods (Dorchester, East Boston, Hyde Park, Mattapan, South Boston, and West Roxbury), with Allston/Brighton, Jamaica Plain, and Roslindale recording an equal number of sales to the previous half year. Overall, the number of neighborhood sales transactions decreases by 19.3%, from 109 in the second half of 2000 to 88 in the first half of 2001. Sales values decrease a whopping 49.7%, off approximately \$82.8 million from the previous period.

## Neighborhood Roundup

### Allston/Brighton

	99 2nd Half	00 1st Half	00 2nd Half	01 1st Half
Median Price	\$535,000	\$1,064,500	\$831,383	\$950,000
Highest	\$1,050,000	\$3,800,000	\$1,600,000	\$9,380,000
Total Revenue	\$4,067,796	\$12,615,750	\$11,887,574	\$30,261,614
Total Sales	7	9	14	14

### Charlestown

	99 2nd Half	00 1st Half	00 2nd Half	01 1st Half
Median Price	\$232,500	\$505,000		\$342,500
Highest	\$450,000	\$3,750,000		\$564,000
Total Revenue	\$980,000	\$5,775,000	\$140,000	\$1,439,500
Total Sales	4	6	1	4

### Dorchester

	99 2nd Half	00 1st Half	00 2nd Half	01 1st Half
Median Price	\$250,000	236,383	\$600,000	\$185,000
Highest	\$1,076,000	825,000	\$76,945,328	\$2,300,000
Total Revenue	\$9,729,766	8,341,383	\$110,559,600	\$4,027,000
Total Sales	27	29	19	10

### East Boston

	99 2nd Half	00 1st Half	00 2nd Half	01 1st Half
Median Price	\$216,702	\$315,000	\$175,000	\$291,500
Highest	\$800,000	\$525,000	\$1,525,000	\$13,750,000
Total Revenue	\$4,713,602	\$3,128,000	\$5,655,555	\$15,603,000
Total Sales	19	10	19	8

### Hyde Park

	99 2nd Half	00 1st Half	00 2nd Half	01 1st Half
Median Price	\$176,942	\$300,000	\$470,000	\$204,000
Highest	\$1,389,263	\$1,300,000	\$8,160,000	\$900,000
Total Revenue	\$2,220,150	\$3,100,000	\$11,640,000	\$1,778,740
Total Sales	6	6	8	6

### Jamaica Plain

	99 2nd Half	00 1st Half	00 2nd Half	01 1st Half
Median Price	\$262,500	\$795,000	\$525,000	\$700,000
Highest	\$355,000	\$4,500,000	\$1,042,373	\$5,100,000
Total Revenue	\$1,066,012	\$8,080,000	\$2,914,373	\$7,240,000
Total Sales	4	6	5	5

### Mattapan

	99 2nd Half	00 1st Half	00 2nd Half	01 1st Half
Median Price		\$234,500	\$427,500	\$180,000
Highest		\$400,000	\$1,532,901	\$279,500
Total Revenue	\$230,000	\$1,069,000	\$3,241,901	\$631,500
Total Sales	1	4	6	3

### Roslindale

	99 2nd Half	00 1st Half	00 2nd Half	01 1st Half
Median Price	\$260,000	\$252,500	\$313,800	\$425,000
Highest	\$825,000	\$375,000	\$380,000	\$550,000
Total Revenue	\$1,177,000	\$960,000	\$868,800	\$1,275,000
Total Sales	3	4	3	3

### Roxbury

	99 2nd Half	00 1st Half	00 2nd Half	01 1st Half
Median Price	\$125,000	\$303,500	\$262,500	\$202,000
Highest	\$340,000	\$1,100,000	\$1,800,000	\$2,300,000
Total Revenue	\$1,356,313	\$4,164,500	\$6,411,000	\$6,899,920
Total Sales	8	10	14	16

### South Boston

	99 2nd Half	00 1st Half	00 2nd Half	01 1st Half
Median Price	\$210,000	\$425,000	\$415,000	\$330,000
Highest	\$24,300,000	\$72,000,000	\$1,900,000	\$5,065,000
Total Revenue	\$43,346,000	\$79,454,750	\$10,437,256	\$11,062,500
Total Sales	15	15	16	15

### West Roxbury

	99 2nd Half	00 1st Half	00 2nd Half	01 1st Half
Median Price	\$145,000	\$650,000	\$840,693	\$900,000
Highest	\$496,500	\$1,350,000	\$1,125,000	\$2,500,000
Total Revenue	\$726,500	\$2,953,000	\$3,006,386	\$3,740,000
Total Sales	3	5	4	3

### TOTALS

	99 2nd Half	00 1st Half	00 2nd Half	01 1st Half
Total Revenue	\$69,613,139	\$129,641,383	\$166,762,445	\$83,958,774
Total Sales	97	104	109	88

Source: Banker & Tradesman